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C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 002417

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TAGS: PGOV PREL RS ECON EFIN PINR  
SUBJECT: NIZHNIY NOVGOROD HEEDS THE CALL FOR ENGAGEMENT

Classified By: Ambassador John Beyrle. Reason: 1.4 (b), (d).

¶1. (C) Summary: On the sidelines of meetings of the U.S. - Russia Foundation in Nizhniy Novgorod September 15-16, Ambassador Beyrle emphasized the overall "reset" in U.S.-Russia relations to develop trust by promoting economic cooperation and face-to-face exchanges, a message that local authorities welcomed. Interlocutors repeatedly said that the region's economic situation was strained, but not catastrophic, particularly since Russians were accustomed to economic difficulties. Faced with a downturn in demand for local industrial products, Nizhniy Novgorod leaders stressed its advantages for foreign investors. Local representatives were supportive of increasing the number of exchange participants to facilitate increased bilateral understanding.

End Summary.

Building Trust One Step At a Time

¶2. (C) In meetings on September 15 and 16 with Presidential Representative to the Volga Region Grigoriy Rapota and Nizhegorodskaya oblast Governor Valeriy Shantsev, Ambassador Beyrle found a receptive audience to our efforts to build the level of mutual trust needed to cooperate on strategic issues. The Ambassador repeated the message President Obama delivered during his July visit to Moscow when he stated that the U.S. is looking to build a partnership with a strong, prosperous Russia. Most interlocutors agreed that trust had significantly improved over the last year and probably would continue to grow. The Ambassador's interaction with university students, exchange program alumni, and local press representatives provided further opportunities to explain U.S. policies and reiterate Washington's respect for Moscow and desire to continue the bilateral momentum.

¶3. (C) Only Polpred Rapota -- whose straightforward demeanor, and criticism of the U.S. led to several exchanges on the role of media -- expressed doubt that dialogue and cooperation would lead to trust. He stated that it would be difficult to overcome decades of mistrust, and suggested that trust could increase more quickly if the U.S. stopped interfering in Russia's internal affairs. Rapota, who claimed to be an expert on the U.S. media, said that the U.S. should allow Russians to develop their own political system slowly rather than being pushed into U.S.-style democracy.

Economy Weathering the Storm

¶4. (C) Interlocutors seemed hesitant to discuss specific economic indicators and often replied that unemployment was average or that the economic situation was better in some regions, worse in others. Shantsev immediately listed a number of impressive economic statistics, but once the press left the room admitted that production at one of the city's major employers, Gorkiy Automobile Factory (GAZ), was down 25 percent and that the number of employees would be seriously cut. The Moscow Times reported on September 18 that GAZ

would fire up to 14,000 employees, although it was unclear how many of them were in Nizhniy Novgorod. Oleg Vakhrushev, a representative of the regional International External Economic and Regional Relations department, said tellingly that his colleagues had 104 days to examine new business and investment requests and that whoever rejected a potential project, no matter how strange, would be immediately fired.

¶ 15. (C) Interlocutors were optimistic that as the "crossroads of Russia," the Nizhegorodskaya oblast would eventually overcome the economic difficulties and attract foreign and domestic investment. Shantsev said the region had the economic interest and political will to assist business development, had passed investment legislation far beyond that of the federal government, and had the highest number of consumers in Russia (46 million) within a 500 kilometer radius. (Note: This would include the Moscow region. End Note.) He and local business representatives from INTEL and the International Community of Nizhniy Novgorod (ICANN) praised the region's "one window" program that dramatically eased business development costs and cut the amount of red tape. INTEL and ICANN representatives noted the region's high level of education, employee loyalty, proximity to Moscow, and low cost of living as convincing selling points for potential investors.

#### Economy Creating Engagement Opportunities

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¶ 16. (C) Local leaders looked to Ambassador Beyrle to help strengthen the region's economy by engaging in a number of upcoming events. Rapota welcomed any economic or

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humanitarian proposals Washington might have, and agreed that the Presidential Commission Working Groups were a good forum to discuss concrete proposals. Shantsev proposed holding a meeting at the U.S. Embassy in Moscow between Nizhniy Novgorod and U.S. representatives to discuss economic opportunities. Shantsev also invited the Ambassador to Nizhniy Novgorod's annual trade exposition, which would be held from October 28 to November 8.

#### NGOs Benefiting Somewhat From the Economic Situation

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¶ 17. (C) The Committee Against Torture (KPP), an NGO that works to prevent and publicize police abuses, said that many NGOs had inadvertently benefited from the recent economic decline. KPP Chairman Igor Kalyapin and Deputy Olga Sadovskaya explained that over the last few years KPP had only received donations from a handful of local donors, most of whom were now cash-strapped. KPP continued its operations with the assistance of National Endowment for Democracy and other grants. Sadovskaya also expressed relief that real estate prices had dropped significantly, which dramatically lowered KPP's rent and operating costs.

#### Exchanges Result in Understanding, Respect

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¶ 18. (C) All interlocutors praised the cultural and educational exchange programs the region had with the U.S., and said that the number of exchange participants should be expanded. Shantsev noted the region's musical, educational, and cultural organizations were world renowned, and hinted that he could find a suitable building for the U.S. to coordinate programs in the city. Rapota remarked that cultural understanding, which led to respect, could only occur when a person lived outside his or her native country. Nizhniy Novgorod Linguistic University Rector Boris Zhigalev, Nizhniy Novgorod State University Deputy Rector Aleksandr Grudzinskiy, and university students agreed that exchange programs dispelled Cold War-era stereotypes and led to mutual understanding. Zhigalev invited the Ambassador to return in early 2010 to celebrate the American Center's 15th year

anniversary in the city and speak again with university students.

Can't Help But Take a Swipe at Belykh

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¶9. (C) Polpred Rapota could not help chastise the work of Kirov Governor and former Union of Right Forces leader Nikita Belykh. Rapota said that he has to travel to Kirov at least once a month to help Belykh, which was the most support he provided to any governor in the Volga Federal District. The "experiment," as he called Belykh, does not work hard or effectively in the economic sphere. Rapota joked that Belykh needed to get good people around him, like former U.S. President Reagan had done, in order to be effective. Rapota theorized that Belykh, if successful, had an opportunity to prove that the opposition could govern. If Belykh floundered, however, people would understand that the opposition could not lead. Rapota quickly, but unconvincingly, added that it was not his goal for Belykh to fail.

Comment

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¶10. (C) Nizhniy Novgorod leaders appeared worried that the economic situation could get worse, but optimistic that worldwide demand for industrial products would quickly return. Contacts seemed resigned to ride out the economic downturn and rely on the city's reputation as an industrial, technologically advanced, educated city to attract investment and pull the city out of its slump. Governor Shantsev's longtime connections to Moscow's political and business elite could be the trump card that helps Nizhniy Novgorod attract capital, and over the long-term, modernize and diversify its economy.

Beyrle